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SUBJECT: RWANDA ECONOMIC REVIEW

¶1. (U) This issue of the Rwanda Economic Review covers:

Investment:

- Sorwathe Tea Factory Innovation
- Starbucks

Macroeconomic Issues:

- Central Bank Addresses Rwandan liquidity shortfall
- Fitch Ratings optimistic about Rwanda's creditworthiness
- Remittances to Rwanda remain strong
- General Economic Indicators

Major Events:

New Tea Investment

¶1. (U) Sorwathe: On July 10, American-owned Sorwathe inaugurated a \$2.8 million "orthodox tea" factory. Orthodox tea is produced by "rolling" tea leaves instead of using the more common "cut-tear-curl" (CTC) process. Sorwathe Managing Director Calle Alles explained to visiting dignitaries that orthodox tea fetches nearly double the market price of CTC tea. Sorwathe, the first tea factory in Rwanda to obtain International Organization for Standardization (ISO) and Fair Trade certifications, is also the first tea company in Rwanda to produce orthodox tea.

¶2. (SBU) The Rwandan Government (GOR) continues to privatize government-owned tea estates. Three tea factories in Karongi district (western Rwanda) have been listed by the GOR for privatization including Gisovu, Gisakura and Kitabi. After privatization, government parastatal OCIR-THE will retain a thirty percent stake in the estates and local tea growing cooperatives an additional ten percent. OCIR-THE Managing Director Anthony Butera told Emboff and visiting OPIC representatives that the tea grown in Karongi district is considered among the best in the world and commands the highest prices at the Mombassa auction. The GOR is seeking investors to expand tea production in the region, upgrade the factories and add value by introducing orthodox and flavored teas. American-owned Olyana group is negotiating with the GOR to purchase the Gisovu tea estate while Sowathe is partnering with local investors in a bid on Gisakura. Both Olyana and Sorwathe are registered with OPIC.

Starbucks

¶3. (U) Starbucks president and CEO Howard Schultz visited Rwanda in July to officially open the company's first "Farmer Support Center" (FSC) in Africa -- modeled after its FSC in Costa Rica. "The center will support both Rwanda and other countries in Africa for the sole purpose of replicating what we did in Costa Rica: help farmers produce high quality coffee," said Schultz. At an Embassy-hosted conference, he added that Starbucks will start selling Rwandan coffee in its

800 UK-based stores in addition to North America-based outlets. In the United States, Starbucks has partnered with the (Product) RED campaign to sell Fair Trade-certified Rwandan coffee.

Macroeconomic Issues

¶4. (U) Rwandan Central Bank Responds to Liquidity Shortage: In July, Banque National du Rwanda (BNR) agreed to place new deposits with commercial banks to strengthen the liquidity of the financial sector. This is the first time since 2004 that the Central Bank has needed to inject liquidity into the sector. Since the end of 2008, Rwandan commercial banks have been struggling with a shortage of liquidity and, in the first half of 2009, were forced by the shortage to reduce medium- and long-term lending by over twenty percent.

Central Bank Governor Francois Kaniba told Emboff the Central Bank would deposit funds in those banks who applied for long-term deposits from the Central Bank to support specific medium- to long-term commercial loan requests. The Governor added that the Central Bank's measures were aimed at offsetting a decline of both deposits and money in circulation.

¶5. (U) Fitch Ratings: Fitch recently rated Rwanda on its long-term foreign and local currency Issuer Default Ratings (IDRs) as well as Country Ceiling Rating at B-, an improvement over prior years. Fitch gave Rwanda's short-term foreign currency IDR a slightly higher B rating. The revised Fitch Ratings indicate strengthening investor confidence in Rwanda.

¶6. (U) Rwanda Remittances: The Central Bank reported that remittances have increased by 25.8% within the first five months of 2009, reaching \$71.4 million, as compared to \$56.8 million in the first five months of 2008. Bank Officials cautioned that large amounts of remittances come through informal channels, making it difficult to measure receipts accurately. Most countries in the region have reported declining remittances due to the global economic downturn.

¶7. (U) General Economic Indicators:

- In June, the GOR reported inflation declined to 10.1 percent. IMF country representative Dmitry Gershenson confirmed to Emboff that Rwandan inflation has steadily declined in 2009, and will likely drop to single digits by the end of the year.

- GDP growth forecast 2009: The GOR has revised downwards its 2009 growth estimate from 7 to 5.3 percent. Economic growth in 2008 was 11.2 percent. The new estimate--consistent with IMF projections--reflects slowing activity in construction, service and industrial sectors. According to the Central Bank, exports dropped by 31.9 percent in value during the first half of the year compared to the same period last year. During a recent press conference the Central Bank Governor said "even the assumption of 5.3 percent growth is unlikely to be achieved unless there is a strong recovery in the second half of the year. Positive growth of 11.2 percent in the agricultural sector for the period ending June 30 has kept overall economic growth in the black."

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